

## ***U.S. SMALL BUSINESS ADMINISTRATION***

### ***FISCAL YEAR 2000 BUDGET***

#### **Highlights**

President Clinton's FY 2000 budget proposal for the U.S. Small Business Administration (SBA) will fund record levels of loan and venture capital assistance and expand the agency's capacity for technical assistance to America's small businesses next year.

President Clinton's budget will help small businesses succeed into the 21<sup>st</sup> century. It shows that the Clinton-Gore Administration recognizes that small business is the engine of our economic growth. It demonstrates their commitment to small business owners, and to a cutting-edge SBA as the way to support and assist them.

The President's budget will help open doors of economic opportunity for individuals and communities in 'New Markets,' so that all Americans can make use of SBA's services and support. In short, this budget provides the resources SBA needs to carry out its mission: providing opportunities for all Americans who have the desire, capability and interest in starting, building and growing their own businesses into the 21<sup>st</sup> century.

The total new budget authority proposed for the SBA is \$994.5 million, including \$761.5 million in regular appropriations and \$233.0 million as contingent/emergency appropriations to support the disaster loan program. This compares to \$820 million appropriated by the Congress for FY 1999, which included \$101.0 million as contingent/emergency appropriations for the disaster loan program.

The President's budget proposal would allow for record-setting levels of financial assistance in FY 2000, with program levels of \$14.1 billion in SBA-backed lending under the 7(a), 504 and Microloan programs, and \$2.4 billion for equity assistance under the Small Business Investment Company (SBIC) programs.

It also provides funds for several of President Clinton's key initiatives, including the New Markets programs, which are designed to increase access to lending, equity capital and technical assistance to women, minorities and to businesses located in low- and moderate-income rural areas and inner cities. It also provides for expanding the number of lenders in the Microloan program to nearly double its present size.

The proposal includes funding for the continuing transformation of SBA into a 21<sup>st</sup> century leading-edge institution, including modernizing the agency's systems and processes, increasing its customer focus, and developing state-of-the-art risk management and internal control systems.

Specifically the proposed budget includes:

- \$10.5 billion for SBA-guaranteed loans under the 7(a) General Business Loan Guaranty program;
- \$3.5 billion in SBA-backed loans under the 504 Certified Development Company program;
- \$60 million in direct loans and \$16 million in loan guarantees under the Microloan program, and an expansion to nearly double the number of existing Microlenders;

- \$2.4 billion in equity assistance under the Small Business Investment Company (SBIC) programs, including \$100 million for New Market Venture Capital Companies;
- \$1.7 billion in surety bonding;
- \$934 million in loans for disaster victims;
- \$87.6 million for targeted management and technical assistance, including:
  - \$32 million for microloan borrowers;
  - \$30 million for New Market Venture Capital program participants;
  - \$10 million for an expansion of the One-Stop Capital Shop network;
  - \$9 million to support an expanded women's business center network;
  - \$5 million for the Section 7(j) technical assistance program;
  - \$1 million for Native American outreach;
  - \$615,000 for Veteran outreach;
- \$62 million for Small Business Development Centers, along with granting them the authority to charge nominal fees for business counseling services;
- \$3.5 million for the Service Corps of Retired Executives (SCORE);
- \$700,000 for Business Information Centers;
- \$6.5 million for increased small business procurement, including:
  - \$500,000 for SBA's PRO-Net system;
  - \$2 million for increasing small business capacity to use electronic commerce;
  - \$4 million for HUBZones;
- \$3.1 million for U.S. Export Assistance Centers; and
- \$3 million for BusinessLINC—a new initiative to link large and small businesses in mentoring and direct technical assistance relationships;
- \$1.4 million for SBA's Office of Advocacy;
- \$11 million for the Office of the Inspector General.

### **Highlights by Program Area**

#### **Small Business Access to Capital and Credit:**

**The budget proposes record levels for the Agency's 7(a), 504 and microloan programs which allow borrowers to finance debt:**

- \$10.5 billion for SBA's Section 7(a) General Business Loan Guaranty program. The budget also includes two new 7(a) initiatives: 1) a pilot expansion in the number of non-bank lenders making SBA-backed loans in "New Markets" through designation of approximately 10 New Market Lending Companies, and 2) a legislative proposal to streamline and simplify the loan terms for loans approved under \$150,000.

Starting in FY 2000, SBA is asking that all loans under \$150,000 have an 80 percent guaranty (except for SBA*Express* and export working capital loans), a 2 percent up-front fee, and a 30 basis point pass-through fee. This will encourage more small loans – allowing SBA to better serve the needs of the small business community.

The proposed \$10.5 billion program level would require an appropriation of \$155.3 million, with a small anticipated carryover balance from FY 1999 and a subsidy rate of 1.51 percent.

- \$3.5 billion in new Section 504 Certified Development Company loans. This level of lending would require no appropriation because the program is fully funded by program fees and anticipated recoveries. In addition, program fees will be reduced for the third consecutive year, to .60 percent of the SBA loan amount, down from .729 percent in FY 1999.
- \$60 million in new direct loan funding and \$16 million in guaranteed loan funding to Microloan lenders. This level of funding will support the planned expansion in the number of lenders to 200 – a near doubling of the current number. The new Microloan intermediaries will serve all areas of the country, including rural and inner cities.

In addition, \$32 million in Microloan technical assistance grants will be made available to SBA's expanded network of microloan intermediaries. These grants are used to provide technical assistance and support to micro-borrowers to help assure their success in business.

**The budget also proposes increases to SBA's venture capital equity programs and includes new initiatives developed to reach out to untapped markets in low- and moderate-income rural and urban areas:**

- \$2.4 billion in funding for venture capital investments in small businesses by Small Business Investment Companies (SBICs). This includes \$800 million in debenture funding, \$1.5 billion in participating securities funds, and \$100 million for the New Markets Venture Capital (NMVC) Program targeting smaller investments in New Markets. These program levels will require an appropriation of \$40.9 million.

Additionally, the budget would provide \$30 million in technical assistance grants to the NMVC firms to assist the small businesses in which they invest.

The SBIC funding levels also support the implementation of a "Low and Moderate Income" or LMI initiative, which will provide incentives for venture capital investing by SBICs in distressed communities, increasing their economic development and employment base. SBA also will encourage the formation of additional SBICs and investments in small business, particularly in America's rural and inner city communities through a series of outreach conferences planned for FY 1999.

- \$1.7 billion in new surety bond guarantees for small business contractors. No appropriation is needed to support this program level due to sufficient carryover funding from FY 1999.
- \$3.1 million in funding for the U.S. Export Assistance Center (USEAC) program will continue to provide essential financing and business development assistance to small business exporters through the USEAC network.

### **Increase Procurement Opportunities for Small Business:**

- \$4 million in funding, double the amount from FY 1999, will fully implement the HUBZone legislation passed in the Small Business Reauthorization Act of 1997. This program enhances federal government contracting opportunities to small businesses that locate in and employ residents of economically distressed rural and urban areas, including Indian reservations.
- \$12 million in reimbursements from the major federal procuring agencies to allow SBA to continue to implement the Small Disadvantaged Business (SDB) certification program – allowing disadvantaged businesses increased opportunities to receive federal contracts and awards.
- \$2 million to help small businesses adapt to the new mandatory federal procurement methods using electronic commerce.
- \$500,000 to continue to enhance and promote the use of the PRO-Net small business database for federal procurement activity.

### **Enhance Small Business Entrepreneurial Development Assistance:**

- \$9 million to support the Women's Business Center network – which will have nationwide coverage by the end of FY 1999. These Centers provide technical and business development assistance to women entrepreneurs in all aspects of business.
- \$10 million for 20 new One-Stop Capital Shops to be opened beginning in FY 1999 in connection with the new Empowerment Zones recently announced. These centers provide a single source of business financing and information to individuals seeking advice and assistance on starting and growing a small business.
- \$5 million to increase the level of technical assistance and executive development provided to participants in SBA's 8(a) program, low-income individuals, and small businesses in other economically distressed areas, including Native American Indian reservations. This would be almost twice the level provided for FY 1999.
- \$3 million for BusinessLINC, a new initiative to coordinate federal efforts to encourage large businesses to work with small businesses in distressed areas. SBA and the Department of the Treasury will jointly promote best practices and help bring private-sector expertise to mentor and grow small businesses in distressed urban areas and isolated rural communities.
- \$1 million to provide increased assistance and outreach to the Native American community, especially on Indian reservations, through technological upgrades to and continued support of the 17 Tribal Business Information Centers.
- \$615,000 for training and assistance to veterans, especially disabled veterans wishing to start a small business.

- \$62 million for the Small Business Development Center (SBDC) program, coupled with a proposed legislative change to allow SBDCs to charge reasonable fees to small businesses for counseling assistance, continuing their training and counseling support to an increasing number of small businesses.
- \$5 million for continued funding for other technical assistance and information programs, including \$3.5 million for the Service Corps of Retired Executives (SCORE), \$700,000 for Business Information Centers (BICs), and \$790,000 for the women's business census with the Department of Commerce.

#### **Transform SBA into a 21<sup>st</sup> Century Institution:**

- \$8 million to continue the systems modernization efforts SBA began in FY 1998. This will allow SBA to continue modernizing its financial and program systems – beginning with the development of a new lender monitoring system. This appropriation also would support SBA's lender oversight and review efforts, and its financial analysis of loan performance and loan subsidy rate processes.
- \$5 million will begin the necessary transition of SBA's workforce to meet the challenges of the 21<sup>st</sup> century. These funds will be used primarily for employee skills training and to support our request for a legislative proposal to allow SBA Voluntary Separation Incentive pay—allowing individuals to retire.

#### **Help Businesses and Families Recover From Disasters:**

- \$934 million in new loans for victims of disasters – representing the 10-year average level of disaster lending. This level of lending can be provided with an appropriation of \$197.4 million.
- \$15 million of program level authority to allow SBA to support a pre-disaster mitigation pilot effort for small business in concert with FEMA's Project Impact.

#### **Serve as a Voice for Small Business:**

- \$1.4 million for the Office of Advocacy to evaluate the impact of regulations on small business; document job generation by small business; and conduct significant public policy research on issues such as small business' share of federal procurement, the impact of mega-mergers on small business, and small business' contribution to technology.
- \$600,000 for the Women's Business Council and \$500,000 for the small business ombudsman and regulatory fairness boards.

#### **Office of the Inspector General:**

- \$11 million for the Office of Inspector General.

(Dollars in Thousands)

	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>
	<b><u>Actual 1/</u></b>	<b><u>Estimate 1/</u></b>	<b><u>Request</u></b>
<b>Non-Credit Programs &amp; Special Initiatives:</b>			
SBDC	71,563	90,296	62,000
SCORE	3,937	3,500	3,500
BIC's	499	700	700
Women's Business Centers	4,292	8,000	9,000
Women's Council	473	600	600
SWOBE Census	992	750	790
Veteran Outreach	371	750	615
Native American Outreach	607	0	1,000
7(j) Technical Assistance	2,850	2,600	5,000
PRO-Net Small Business Database	232	500	500
BusinessLINC Initiative	0	0	3,000
Electronic Commerce Initiative	0	0	2,000
One-Stop Capital Shops	3,100	3,100	10,000
United States Export Asst. Centers	2,831	3,100	3,100
Advocacy Research & Database	790	800	1,400
Microloan Technical Assistance	14,094	19,396	32,000
New Mkts Venture Capital Technical Asst.	0	0	30,000
National Ombudsman	351	500	500
Systems Modernization Initiative	8,000	8,000	8,000
Workforce Transition	0	0	5,000
HUBZones Program	2,000	2,000	4,000
Small Disadvantaged Business Program	10,409	11,852	12,000
<b>Total Non-Credit Programs &amp; Special Init.</b>	<b>\$127,319</b>	<b>\$156,444</b>	<b>\$194,705</b>
<b>Credit Programs: 2/</b>			
Section 7(a) Business Loans	8,531,404	10,000,000	10,500,000
Section 504 Development Co. Debentures	1,763,577	3,500,000	3,500,000
SBIC Debentures	461,615	640,000	800,000
SBIC Participating Securities	699,999	800,000	1,500,000
New Markets Venture Capital Debentures	0	0	100,000
Microloans-Direct	10,781	42,400	60,000
Microloans-Guaranteed	3,654	11,995	15,998
7(a) and 504 DELTA Loans	36,177	55,039	54,956
<b>Total Business Loans</b>	<b>11,507,207</b>	<b>15,049,434</b>	<b>16,530,954</b>
<b>Disaster Loans 2/</b>	<b>639,184</b>	<b>1,131,950</b>	<b>934,234</b>
<b>Surety Bonds</b>	<b>523,945</b>	<b>1,672,000</b>	<b>1,672,000</b>
<b>Inspector General</b>	<b>10,500</b>	<b>11,748</b>	<b>11,000</b>
<b>TOTAL BUDGET AUTHORITY</b>	<b>716,132</b>	<b>819,959</b>	<b>994,518</b>

1/ Excludes one-time congressional initiatives.

2/ Reflects approvals net of cancellations, increases and decreases